



**Direct Energy**

**TESTIMONY  
OF  
RONALD M. CERNIGLIA  
ON BEHALF OF  
DIRECT ENERGY SERVICES, LLC.**

**2011 – SENATE BILL 1  
AN ACT CONCERNING CONNECTICUT'S ENERGY FUTURE**

**CONNECTICUT GENERAL ASSEMBLY  
JOINT COMMITTEE ON ENERGY AND TECHNOLOGY**

**TUESDAY, MARCH 15, 2011**

Good afternoon and thank-you for the opportunity to provide testimony in regards to Senate Bill 1.

My name is Ron Cerniglia, and I am the Director of National Advocacy, Government & Regulatory Affairs for Direct Energy. Prior to joining Direct Energy four years ago, I was employed by the New York State Public Service (Utility) Commission. Most recently, I had the honor of serving on Connecticut Governor Dan Malloy's Energy Policy Working Group and I also provided policy guidance as part of the Pennsylvania Governor Tom Corbett's Energy and Environmental Resources Committee transition team.

In case you have not heard of Direct Energy, we are one of North America's largest energy and energy services companies, with approximately 6 million residential, commercial and industrial customers, operating in 46 states and all 10 provinces in Canada, with about \$10 billion in revenues. In addition to providing electricity and natural gas to residential customers, we also provide service to national account companies that you would be familiar with including McDonald's, The Home Depot, Macys, and my personal favorite, Anheuser-Busch. Closer to home, Direct Energy is a licensed competitive supplier and is very active here in Connecticut's energy market, providing electricity, heating/ventilation/air-conditioning, electrical, and plumbing services in the CL&P and UI service territories to over 60,000 customers.

In the few remaining minutes of my prepared testimony, I would like to convey that from my perspective, well-designed competitive markets are the best means to promote the efficient delivery of products and services and are well suited to deliver the lowest possible prices, while also providing customers with the benefit of greater choice, value, and innovation; that Connecticut's well-functioning competitive market for residential and commercial customers can continue to emerge with supportive policies; and I would like to provide some thoughts on ways to enhance SB1 to compliment the competitive marketplace.

When you analyze objective metrics, Connecticut's competitive electricity market is clearly one of the most robust and fastest growing in the US, and responding to the needs to consumers in a classic public private partnership. According to DPUC statistics as of the end of this year, 38% of customers have

chosen a competitive supplier, representing 62% of total electricity consumption. Customers receive a choice in billing options, at least 30 rate options, and annual savings of up to \$222 as compared to the standard offer service price. Maintaining the regulatory and legislative certainty while increasing the states competition consumer education awareness efforts will provide near-term relief to consumers, particularly those who remain on the standard offer service rate.

Given my involvement on the Energy Policy Working Group, I can empathize with the thought behind SB1, and new Section 50, particularly in regards to the current utility offered, high-priced standard office service rate derived from the three-year ladder approach. There are two basis approaches to address this issue -- the first, most aggressive approach is to remove the utilities from the retail generation business altogether when these contracts expire and have competitive suppliers compete to serve all remaining SOS customers in the state. This is the Texas model.

The second less-aggressive approach would have utility-provided standard offer service become more market-reflective, replacing the current multi-year terms with six-month laddering which would significantly reduce the migration and volume premiums embedded in the bids and capture the benefits of lower input costs. Market-reflective pricing also has the important by-product of sending economic price signals to consumers, incenting them to explore bundled products which would include energy efficiency services to help manage the customer's overall energy bill, and offering customers the ability to select environmentally friendly renewable generated energy.

A managed portfolio approach, as suggested by SB1, can have a host of negative ramifications including the potential for cross subsidies, cost-recovery issues, a lack of transparency making it difficult for customers and competitive suppliers to do an apples to apples pricing comparison, and can change the utility bias from neutral to anti-competitive markets. It should also be noted that reduced volatility, a goal of a managed portfolio, does not necessarily mean lower prices to consumers. Market-reflective SOS service and increased demand response coupled with longer-term solutions such as diversity in the supply portfolio should be promoted.

In addition to market-reflective pricing, allowing customers multiple platforms for billing services, particularly utility-consolidated billing with purchase of receivables, is another critical market pre-requisite has several advantages. This flexibility maximizes the utilization of the existing rate-based utility resources since competitive suppliers avoid duplicative costs associated with customer billing and collection efforts. This approach also ensures simplicity in that each month, a customer receives just one bill from their local utility and only needs to make one payment for both delivery and commodity. From a public policy perspective, this also allows competitive suppliers to offer service to all residential and small business customers, regardless of their income level or the size of their energy usage. This results in a broader segment of consumers enjoying the benefits of retail competition, including lower prices and innovative products, including the ability to select from multiple renewable energy options.

Some customers, however, prefer two bills, and this option is required for customers who may want to bundle their commodity offering with an energy-efficiency product since utilities are precluded to include charges for non-tariff items. Thus, sections 52(a) and 53(a) are concerning given the uncertainty of the potential for increased billing fees and the elimination of a customer billing option, by October 1, 2011.

Lastly, Direct Energy is a strong supporter of appropriate consumer protections and oversight of sales practices and is generally in support of the measures outlined in SB1. Our suggestion is that given the existing and comprehensive DPUC proceeding on marketing practices which is expected to render a decision as early as March 16<sup>th</sup>, it may be practical to postpone consideration of what is contained in SB1 until implementation of the DPUC's recommendations.

In conclusion, Direct Energy appreciates the opportunity to testify today, and looks forward to providing constructive feedback to enhance the competitive market in Connecticut, as this and other energy bills are considered.

Thank you.

Attachments: Ron Cerniglia's Biography  
Direct Energy Fact Sheet